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## AT DEADLINE

### Small managers tapped

In an effort to hire smaller money management firms, the $17.9 billion New York City Employees' Retirement System has hired 11 firms, nine of them women- or minority-owned, to run $225 million.

Hired to manage $25 million each, were Amerindo Investment Advisors, Montgomery Asset Management, NCM Capital Management, Executive Investment Advisors and Taplin, Canida and Habacht. Clemente Capital was allocated $50 million.

Progress Investment Management was given $50 million to run in a manager-of-managers program that will include at least five women- and minority-owned firms.

### Callan hires consultant

Lou Ann Dolan has been named vice president and senior consultant of Callan Associates Inc. She will work in New York.

Ms. Dolan formerly was a principal and manager in the regional asset planning practice of William M. Mercer.

Brian C. Thompson has been hired at Mercer as a principal in the Dallas office. He joins from Buck Pension Fund Services.

### Year-end results tallied

The median return in the PIPER universe of bank and insurance company pooled equity funds was −2.4% in 1990. The median equity fund in the PIPER+ universe of investment counseling firms, and the S&P 500, each returned −3.1%.

### Swap contracts get OK

The Chicago Board of Trade has received Commodity Futures Trading Commission approval to list three- and five-year interest rate swaps contracts. Trading is likely to start this spring.

## INSIDE

Illustration by Greg Loudon

### Feeling the pinch

Smaller investment management firms are being squeezed out of the defined contribution market as plan sponsors are less willing to take a risk with those assets. Commentary, Page 14.

AT&T, some of whose employees are shown above, is pursuing direct private placement deals.

# Private deals lure more pension funds

**By Marcia Parker and Marlene Givant Star**

The pension funds of AT&T, IBM, New York City and Colorado, and other institutional investors such as Chrysler Capital Investment Services Inc. are exploring an array of vehicles for making private investments.

Among seasoned players, American Telephone & Telegraph Co. is pioneering direct investments on its own behalf while IBM Corp. is among the few funds taking advantage of co-investment opportunities it is presented as a limited partner.

Other institutions, such as the Colorado Public Employees Retirement Association, Denver, and Chrysler Capital, Stamford, Conn., are significantly boosting or making first forays into partnership funds with new focuses like ailing companies and international placements. And the New York City Retirement System has hired a former investment banker to explore possible private placement investments.

Private market investors also are stepping up purchases of Rule 144A securities, the private securities sold by U.S. and foreign companies under recently eased Securities and Exchange Commission regulations.

New vehicles also are on the drawing board. Securitization of private placement portfolios may provide the investment-grade stamp many institutional investors require.

Looking to leverage their expertise in private placements, several insurance companies are aggressively soliciting pension funds as investment management clients.

The heightened investor appetite couldn't have come at a better time. No fewer than 40% of large companies expect to sell debt via private placements during the next 12 months, according to a study by Greenwich Associates, Greenwich, Conn.

The large, capital-rich institutions are attracted to private placements because they have an acute need for unexploited, potentially lucrative investments. Returns from traditional asset classes have been less than stellar and the pressure to bolster performance is keen.

Representatives of several institutions exchanged views at a recent private placements conference sponsored by Equitable Capital Management Corp. and International Business Forum.

Executives at AT&T Investment Management Organization, Berkeley Heights, N.J., one of the earliest and biggest private placement investors, believe the organization now has the expertise to stop pumping money into limited partnership funds and to begin making direct investments in companies on its own. Besides, AT&T is tired of the sizable fees all limited partners must pay. AT&T has about $1.5 billion of its $38.9 billion pension fund invested in private placements, including leveraged buy-outs.

In the next five years, Russell Steenberg, investment director with ATT Investment Management, looks for the relationship between limited partners and general partners to become more of a consulting one. Direct investing by pension funds will increase through the co-investment opportunities these partnerships offer. He also expects pension funds to finance more companies directly and acquire more equity in exchange.

In a process he nicknamed "double dipping," Marc Sacks, financial program administrator of

*See* **Private** *on page 31*

# State Street tops in new business

## Scoreboard finds indexing nets gains

**By Hillary Durgin**

The pension industry's money management titans again dominated the new business scoreboard in 1990 as pension funds continued to steer assets to passive products, particularly enhanced and international index products.

State Street Bank & Trust Co., Boston, and Bankers Trust Co., New York, pulled in the most new assets overall with $8.9 billion and $6.1 billion respectively. Just more than one-third — $3.1 billion — of State Street's new business was indexed. At Bankers Trust, $2.2 billion or 36% of its new assets were directed into index funds.

Overall, multiproduct managers dominated the list of top 10 business gainers in *Pensions & Investments*' Scoreboard Survey. The top 10 added $30.1 billion in new, tax-exempt institutional assets to their coffers during the year ended Nov. 30, of which 35%, or $10.5 billion, was indexed.

Other index magnates making the top 10 list among managers with more than $10 billion under management included: Pacific Investment Management Co., Newport Beach, Calif., with $2.5 billion in new business; ANB Investment Management Co., Chicago, with $2.1 billion; and Wells Fargo Nikko Investment Advisors, San Francisco, with $1.8 billion.

Index managers and consultants said the glint of international, improved returns and continued focus on pension liabilities were prompting pension executives to allocate new assets to international or enhanced index strategies, particularly in the fixed-income arena.

"We see the index market really moving away from S&P strategies toward enhanced strategies and other benchmark strategies," said H. Kent Atkins, chief investment officer at Bankers Trust. Customized strategies are used for more than half of the indexed assets managed by Bankers Trust, Mr.

*See* **Gains** *on page 30*

# NYC teachers index $1.5 billion in stock

**By Margaret Price**

NEW YORK — The $10 billion New York City Teachers' Retirement System invested $1.5 billion during December in a core equity index fund run by Bankers Trust Co.

The move was the first step in the diversification of the fund after trustees voted to end its 100% bond commitment and to place 50% of assets in U.S. stocks.

The fund had been one of the last of the pension giants to diversify, and, despite continuing controversy over the move, began investing in equities immediately following the trustees' approval.

Plans are proceeding for additional stock investments and for hiring active equities managers. The fund expects to invest in stocks each quarter through 1991 and 1992, reaching its 50% target by late 1992.

Assets are being transferred to an index fund similar to one used by the city's Fire, Police and Employees' funds: it is based on a South Africa-free Russell 3000 Index.

Final active/passive targets have not been made, nor have the fund's trustees approved plans for manager searches. But Beverly L. Hamilton, who had been deputy comptroller for asset management until Feb. 1, anticipates a "year-long process" of manager searches will begin this spring.

(Ms. Hamilton has become president of Arco Investment Management, Los Angeles, which runs the employee benefit assets of Atlantic Richfield Co.)

In an unrelated move, the $17.9 billion City Employees Retire-

*See* **Teachers** *on page 31*

Photo by Alice Gank

New York's Elizabeth Holtzman said the teachers' fund was an underperforming asset.

## NEWS DIGEST

**The settlement between RJR Nabisco, the consumer tobacco and food products manufacturer, and Metropolitan Life could be a landmark development for bondholders. Page 29.**

SPECIAL REPORT: MONEY MANAGEMENT

***Pensions & Investments'* annual Scoreboard** survey reveals which investment firms won the most new business in equities, fixed-income, international, real estate and other asset categories. Pages 1, 17.

FINANCING

**AT&T, IBM, Colorado and** New York City are among pension investors seeking private placement deals. Page 1.

**Junk bond investors swap** their depressed holdings for assets of greater perceived value. Page 3.

INTERNATIONAL

**Foreign bonds are getting** a long, hard look from several tax-exempt institutions. Page 2.

**Some ADR programs leave** issuers disappointed with the results. Page 2.

**Wyatt Asset Services' merger** with Debatin Associates rounds out its global business plan. Page 24.

**Managers and consultants debate** the diversification advantages of foreign bonds. Page 27.

REAL ESTATE

**RREEF principals ready a strategy** to stave off the forced sale of nine properties. Page 3.

**The Unisys pension fund** breaks the stereotype with its investment in a hotel management company. Page 3.

**Controversy surrounds the Texas Teachers** system as its real estate officer is relieved of his duties. Page 3.

## DEPARTMENTS


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## Money manager survey mailed

**Questionnaires for *Pensions & Investments'* annual survey of the largest institutional investment management firms are in the mail. In order for your firm to be included in the May 20 special issue, completed forms must be returned by Feb. 25. If you have not yet received a questionnaire and wish to receive one, contact Christine Philip, directory coordinator, at (312) 649-5217.**

# Foreign bond wave rolling

## A growing number of U.S. funds taking the plunge

**By Margaret Price**

Emerging from a year of stellar performance, international bonds are gaining popularity with pension funds and providing a more viable diversification option.

While the Annuity Board of the Southern Baptist Convention, Dallas, hired a money manager for an $80 million global bond account, other funds, including the Pennsylvania State Employes' Retirement System, obtained foreign bond exposure through domestic bond accounts by allowing managers to include a limited amount of foreign bonds.

"U.S. pension investors are asking if they should make long-term, strategic commitments to non-dollar bonds, or, whether they should permit their managers to make tactical allocations to them based on the near-term outlook," said Stephen Francis, general manager in the London office of Fisher, Francis, Trees & Watts. "They're doing both."

*Pensions & Investments'* annual survey of the largest pension funds revealed that, as of Sept. 30, the Top 200 defined benefit plans had slightly more than $10 billion in international bonds, 67% more than a year earlier. According to *P&I*'s count, 13 of these funds began international bond investing during the 12-month period.

**1990 index returns**

| | |
|---|---|
| S&P 500 | −3.08% |
| MSCI EAFE | −23.20 |
| Shearson Lehman Gov't/Corp. | 8.29 |
| Salomon World Gov't, ex-U.S. | 15.29 |
| Salomon World Gov't | 11.98 |

Source: Rogers, Casey & Associates, Darien, Conn.

Of course, quite a few of even the largest U.S. pension funds still don't use foreign bonds. But a growing acceptance of global/international bonds comes after years of debate on the securities' merits. Some funds, consultants and others questioned whether pension funds should offset dollar-denominated liabilities with non-dollar-denominated assets like foreign bonds. Others also have debated the very attractiveness of foreign/global bonds: whether they add diversification, would enhance returns or belong as a separate asset class.

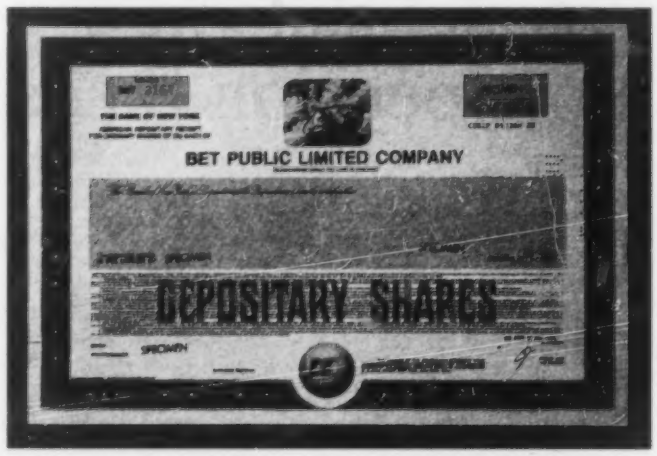
But a variety of factors, including success with overseas equity investments and foreign bonds' outperformance in 1990 against most other asset classes, have spiced foreign bonds' appeal.

The J.P. Morgan Non-U.S. Government Bond Index of 10 foreign government bonds rose 15.6% in U.S. dollar terms for the year ended in December, compared with the J.P. Morgan U.S. Treasury Index's gain of 8.6%, and the Morgan Stanley Capital International Europe Australia Far East Index's 24.7% plunge, without dividends re-invested.

Victor Filatov, vice president and head of the bond index group at J.P. Morgan Securities Inc., New York, said the dollar's decline accounted for about two-thirds of the foreign bond return to U.S. investors. Many expect less or no performance contribution from the dollar this year.

But on the brighter side, some analysts see economic forces driv-

*See* **Overseas** *on page 27*




**ADRs, such as this one for BET PLC, are becoming more popular despite being shunned by large funds and international managers.**

# Pension funds skip ADR market growth

**By Marlene Givant Star**

Large U.S. pension funds and their money managers, which represent the bulk of U.S. assets invested abroad, generally have ignored the growing American depository receipt market.

While depository bank executives say demand for ADRs is increasing by leaps and bounds as more domestic investors seek to invest abroad, some issuers are finding ADR programs don't always deliver what the proponents promise — in part because of the lack of interest among international pension fund managers.

Trading volume for 1990 was 3.8 billion exchange-listed ADRs with a value of $75 billion, a 25% increase from 1989's 3.2 billion ADRs with a value of $60 billion, according to the Bank of New York. The 101 new ADR programs for 1990 also was a record; in 1989, 73 programs were launched.

Many big-name multinational companies, such as Hanson PLC, Glaxo Holdings PLC and C.H. Beazer Holdings PLC, have achieved sizable U.S. shareholder bases and liquid trading in their shares through successful ADR programs, but other issuers have not been as fortunate.

Often companies find it difficult to attract new institutional investors. The biggest U.S. international investors tend to hold ordinary shares as opposed to ADRs, which are receipts for shares of a foreign company that are traded in the United States.

ADRs are 80% owned by institutions, including some of the largest in the United States, but these firms are not the biggest investors abroad.

Companies unsure about whether to start a program should "resist with fortitude the blandishments of those siren voices telling them that Wall Street is

*See* **ADRs** *on page 25*

# Indexing still flexing its muscle

**By Fred Williams**

Despite uncertainties in financial markets during 1990, indexing continued to gain favor among investors during the second half of the year with the international sector still leading the way.

International equity indexing was up 10.2% in the six months ended Nov. 30, to $23.762 billion from $21.554 billion. That surge came despite the dismal, −15%, performance of the Morgan Stanley Capital International Europe Australia Far East Index. When adjusted for that decline, international equity indexing showed an impressive 29.7% increase.

Domestic equity funds decreased 1.8% during the period to $172.726 billion, but that represents an 8.3% gain when adjusted for the market. The Standard & Poo. 500 Stock Index was down 9.34% for the period June 1 through Nov. 30.

On the fixed-income side, domestic fixed-income funds increased 10.2% to $74.263 billion, or 3.8% adjusted for market, from $67.401 billion in May. The Shearson Lehman Brothers Government/Corporate Bond Index was up 6.1% for the six months ended Nov. 30.

International fixed-income funds increased 9.7% to $1.213 billion, a market-adjusted −2%, from $1.106 billion in May. The Salomon Brothers World Government Bond Index was up 11.9% for the six months ended Nov. 30.

As of Dec. 1, 50 leading index managers surveyed by *Pensions & Investments* reported $271.964 billion in total indexed assets under management, a decrease of 1.7% from the $276.681 billion reported May 31. Most of the slip-

*See* **Indexing** *on page 30*

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# Plan consolidation spurs manager hires

**By Marlene Givant Star**

STAMFORD, Conn. — ASEA Brown Boveri, the Swedish power engineering company, has just completed the merger of three thrift plans, including a plan of its U.S. subsidiary, Combustion Engineering Inc.

The consolidation, completed in January, created one plan totaling more than $310 million. Previously, ABB's $30 million in defined benefit assets were merged with the much larger Combustion Engineering pension plan to total $645 million.

The consolidation of the thrift plans was spearheaded by Eric W. Wood, director-pension and thrift management, who joined the company from NYNEX Corp. in the first half of 1990 shortly after the acquisition.

The new thrift plan offers six different investment options, including international stock investment.

"Multiple thrift plans were consolidated to one ABB plan with an expanded amount of investment options, and we selected investment managers within each that would maximize investment return and employee participation," Mr. Wood said.

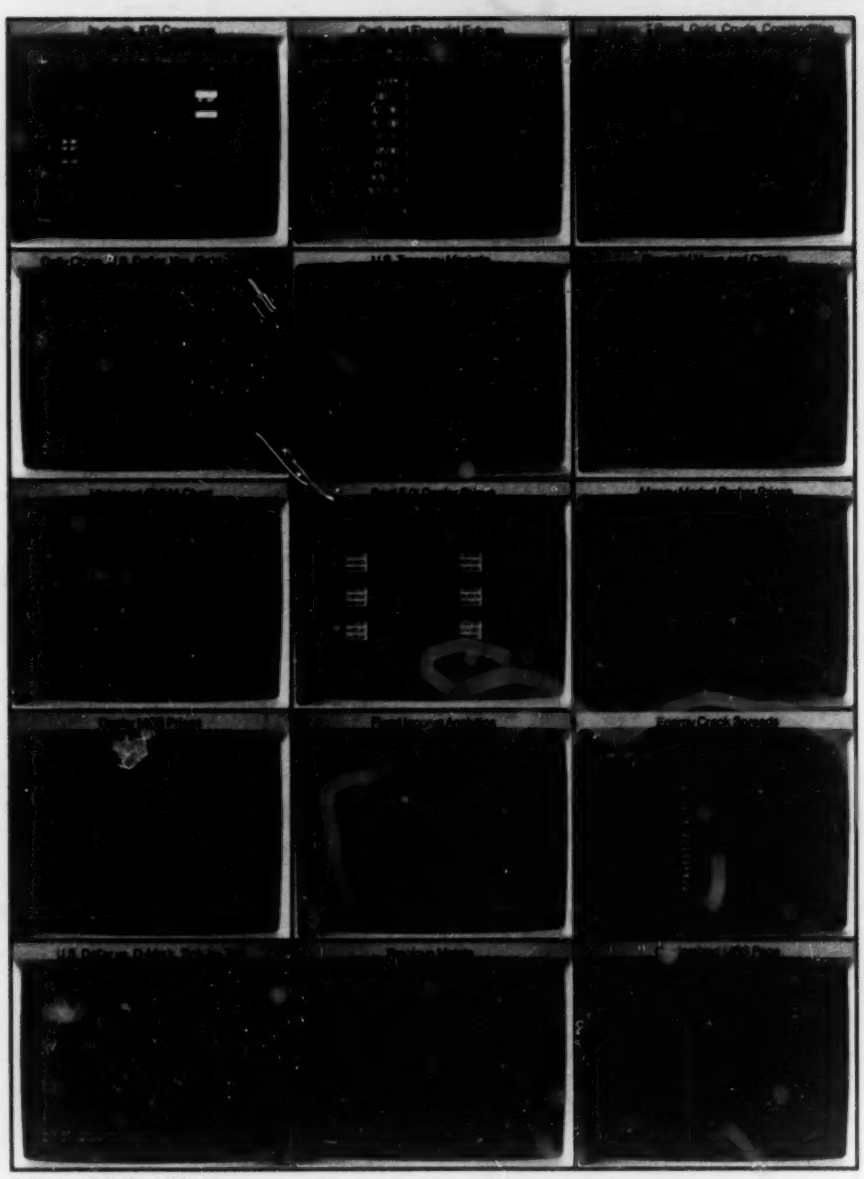
Although the change is not expected to save money, so far it looks as though it has attracted a large number of new participants.

Under the old format, 65% to 70% of those eligible participated. But already "there are indications that has significantly increased to 85% to 90%. We're very, very encouraged. We're really happy with that," said Mr. Wood.

The investments have been allocated to managers as follows: a short-term income fund will be managed by Dimensional Fund Advisors, Santa Monica, Calif.; a conservative equity fund and a balanced fund will be run by The Vanguard Group of Investment Cos., Valley Forge, Pa.; an aggressive equity fund will be run by Fidelity Investments, Boston; and

*See* **Hires** *on page 28*

**The Big Picture.**



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## CORRECTIONS & CLARIFICATIONS

• A photo in the Jan. 21 issue was identified incorrectly as **Stephen A. Ross** of Roll and Ross Asset Management Corp., Blue Bell, Pa. The correct photo is published at right.

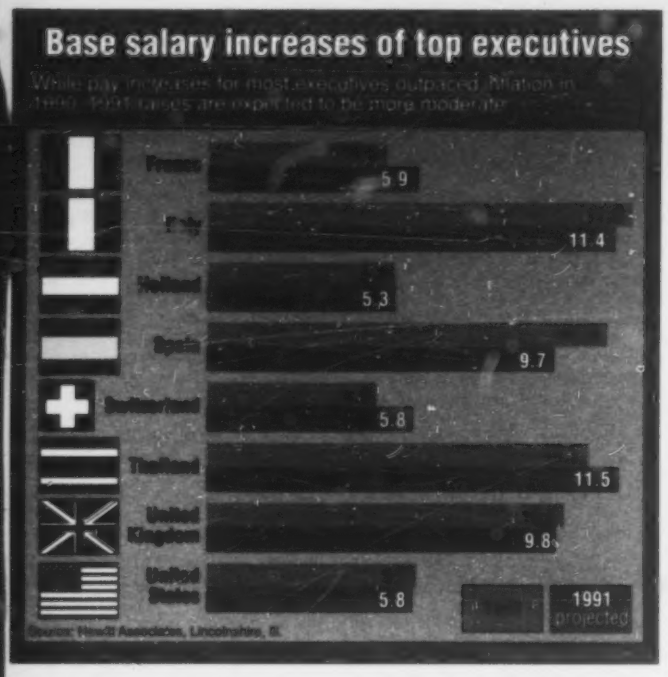
**S. Ross**

• The **Department of Labor** would permit employer stock to be used as an investment option in participant-directed defined contribution plans, but it would not qualify as one of three safe harbor options as reported in the Dec. 24 issue.

A Labor Department official erred in saying employer stock would qualify as one of three safe investment vehicles under the department's draft proposed 404(c) regulation. Employer stock would have to be offered in addition to the safe harbor vehicles for an employer to avoid fiduciary liability for individual account retirement plans.

Also, the draft regulation would become effective six months after a final rule is promulgated. The draft regulation was sent to the Office of Management and Budget Jan. 8 for review.

• **NYNEX Corp.**'s defined contribution assets were reported incorrectly in the company's Jan. 21 profile. As of Sept. 30, the company had $2.497 billion in defined contribution assets, of which $5.3 million was in a leveraged ESOP.




COMPENSATION

## Raises topped inflation worldwide

■ Most executives around the world were pleasantly surprised with the increase in their base compensation in 1990, but 1991's raises are expected to be more moderate.

"In every surveyed country, executive pay increases on average outpaced inflation in 1990, making it another good year for top executives," said Paul Howes, an international consultant with Hewitt Associates, Lincolnshire, Ill., which published the results of its survey of top executives and other employee groups in 16 countries.

In 1991, real income growth is expected to slow as employers become more concerned about economic prospects, he said.

Executives in Italy, Spain, Thailand and the United Kingdom received higher than expected increases last year at 11.9%, 11.2%, 10.7% and 10%, respectively.

Those four countries, however, also reported the highest provisions for inflation, ranging from a low of 6.4% in Italy to 7.8% in the United Kingdom.

For executives in the United States, the average increase in base salary was 5.9%, with a 4% inflation rate.

INTERNATIONAL

## Year still bright despite gloomy 4th quarter data

■ Median non-U.S. and global equity portfolios in The WM Co.'s universe lagged far behind market indexes during the fourth quarter but outperformed them for the year.

The median non-U.S. portfolio returned 5.5%, while the Morgan Stanley Capital International Europe Australia Far East Index returned 10.8% and the FT-Actuaries Europe-Pacific Index returned 11.6%. The weighted average return of non-U.S. portfolios tracked by WM was 5.7%.

The median global portfolio returned 5.3%, compared with 9.9% for the MSCI World Index and 10.6% for the FT-Actuaries World Index. The weighted average return of global portfolios was 4.8%.

For the year, the median non-U.S. portfolio declined 14%, compared with a 23% drop in the EAFE index and a 23.8% decline for the FT-A EuroPac. The weighted average of non-U.S. portfolios tracked by WM posted a drop of 11.4%.

The median global portfolio in the WM universe dropped 10.4% for the year, while the MSCI World Index was down 16.3% and the FT-A World Index lost 17.1%.

Underexposure to the Japanese market hurt portfolios' relative performance in the fourth quarter but helped it for the year, according to Callum Robertson, WM research and support analyst. Portfolios in the universe underperformed the local indexes in most markets in the fourth quarter; returns vs. local indexes were mixed for the year. High liquidity and high exposure to Continental markets also benefited full-year returns.

REAL ESTATE

## Barlow seeks new role for her firm

■ Susan Barlow, former managing director of the real estate consulting division of Callan Associates Inc., said she is starting a firm that will act as a fiduciary as well as a real estate consultant for pension funds.

The dual role Ms. Barlow will take at her new firm, as yet unnamed, could be at the vanguard of what other consulting firms will do.

Most executives for penston consulting firms say they now act as consultants but not fiduciaries. Some, however, have been considering taking on the fiduciary role, where they would have much greater control over pension fund real estate assets and real estate advisers.

Because her new firm will act as a fiduciary, Ms. Barlow said she is seeking Securities and Exchange Commission status as a registered investment adviser.

But rather than act as fiduciary/consultant for all of a pension fund's real estate assets, she said her firm will focus on private placement-like real estate deals where pension fund financing will replace bank or private financing for real estate companies.

She said she will be looking at joint venture or co-investment deals where an operating company invests its own money but wants a pension fund as a financing partner.

She said her fees should be lower than the cost of a separate real estate adviser and consultant. She expects to have an office open in Irvine, Calif., in March.

**Susan Barlow is in the process of starting her own real estate consulting firm.**

NUCLEAR TRUSTS

## Supporters call bill's chances good

■ This may be the year Congress passes a bill to ease investment restrictions on nuclear decommissioning trusts and lower taxes on the trusts' earnings.

The bill has been proposed for two years, but languished until late last session when the House Ways and Means Committee passed it in October. The bill failed to reach the full House because of the budget impasse.

The bill calls for a broader range of investment options than the "black lung" limitations of U.S. Treasuries, certain bank certificates of deposit and municipal bonds. The bill also seeks a reduction of the tax on investment earnings to 22% and ultimately 20% from the current 34%.

The trusts are to pay for the eventual decommissioning and decontamination of the country's 114 nuclear power plants. The total cost is expected to be upwards of $60 billion.

Easing investment restrictions and lowering the tax rate are designed to help the utilities meet the costs. "Our chances are excellent," said Rob Heartwell, an aide to the bill's sponsor, Rep. Richard Schulze, R.-Pa.

PEOPLE

## Execs named to fill regulatory posts

■ Two key federal regulators overseeing securities markets and pens.on plans have been appointed.

William H. Heyman, a managing director of Smith Barney, Harris Upham & Co. Inc., has been named deputy director of the Securities and Exchange Commission's division of market regulation. This is a new post.

Separately, John E. Burke became the Internal Revenue Service's assistant commissioner for employee plans and exempt organizations, the top IRS job dealing exclusively with benefit plans. Previously, he was director of the IRS' Greensboro, N.C., district.

Mr. Burke succeeded Robert Brauer, who has become director of the Pittsburgh district.

BENEFITS

## Agencies announce limits for 1991

■ For 1991, the maximum annual benefit payable under a defined benefit plan is $108,963, up from $102,582, the Internal Revenue Service announced.

The limit, under Section 415 of the Internal Revenue Code, affects only funding of pension plans. The limit is adjusted for inflation annually.

The ceiling for contributions to a defined contribution plan remains at $30,000. That figure will not be adjusted until the defined benefit plan limit exceeds $120,000.

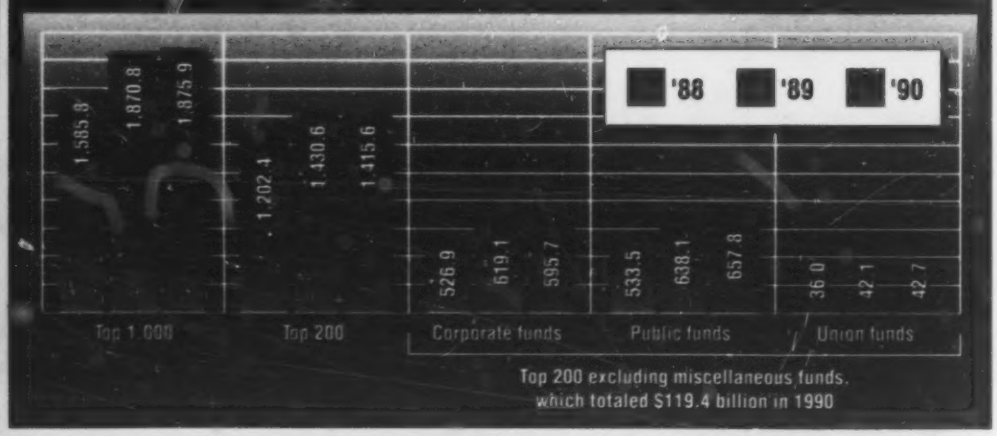
The Pension Benefit Guaranty Corp. announced the maximum monthly benefit it will guarantee for single-employer defined benefit plans terminating in 1991 is $2,250, up from $2,164.77.

## CORRECTIONS

**Figures for the total and breakout between defined benefit and defined contribution assets for the Top 1,000 employee benefit funds were reported incorrectly Jan. 21. The correct numbers, shown in bold, are total assets of $1.876 trillion, of which $1.466 trillion is defined benefit and $391.4 billion is defined contribution.**

**Profile statistics at a glance**
**($ billions)**

| | 1989 | 1990 |
|---|---|---|
| Top 1,000 assets | **1,875.9** | 1,870.8 |
| Defined benefit | **1,466.8** | 1,480.8 |
| Defined contribution | **391.4** | 374.0 |
| Top 200 assets | 1,415.6 | 1,430.6 |
| Top 100 assets | 1,182.5 | 1,198.2 |
| Top 50 assets | 924.8 | 940.0 |
| Top 25 assets | 678.6 | 690.1 |
| Top 200 defined benefit | 1,124.4 | 1,159.8 |
| Top 200 defined contribution | 272.6 | 265.3 |
| Top 200 profit sharing | 11.1 | 14.5 |
| Top 200 401(k)/thrift | 50.2 | 85.2 |



**Money center banks' exposure to highly leveraged transactions**

| | | | | |
|---|---|---|---|---|
| BankAmerica | 2,400 | 157 | 6.5 | 43.0 |
| Chase Manhattan | 4,623 | 55 | 1.2 | 126.0 |
| Citicorp | 7,773 | 1,044 | 13.4 | 90.3 |
| Manufacturers Hanover | 3,350 | 87 | 2.6 | 112.9 |
| Security Pacific | 4,500 | 171 | 3.8 | 99.8 |
| Composite values | 65,924 | 3,946 | 6.0 | 78.4 |

Source: Kidder Peabody & Co. Inc., New York. Graphic by Kimberly Mart

BANKING

## Leveraged deals a four-letter word in lending circles

■ More red flags are being raised about highly leveraged transactions or HLTs, one of the more dreaded acronyms in banking.

A Kidder, Peabody & Co. research report warns HLT credits will deteriorate industrywide in the months ahead as many leveraged buy-out deals and other debt-laden companies falter amid an economic downturn.

The investment bank expects to see a doubling if not a tripling in HLT non-performers by year-end 1991. As of Sept. 30, HLT non-accrual loans totaled $3.9 trillion, or 6% of total HLT loans outstanding in the Kidder, Peabody 35-bank universe.

Kidder, Peabody thinks HLT non-performers should show greater percentage increases than commercial real estate non-performers, which already range between 10% and 25% of real estate loans outstanding.

In a recession, Kidder, Peabody warns, some 30% of LBOs would likely default and banks, as senior debtors, are likely to lose some 30% of their principal.

The firm studied 30 different companies' senior LBO bank loans in the secondary market and found the average discount to par was 35%, but ranged from 75% to 3%. Seventeen of the 30 credits traded at a discount to par of more than 30%.

Federal regulators are expected to require banks to reallocate a portion of their reserves toward their HLT portfolio. Many analysts believe most banks' reserve levels are inadequate today.

INTERNATIONAL

## Few positives among index markets

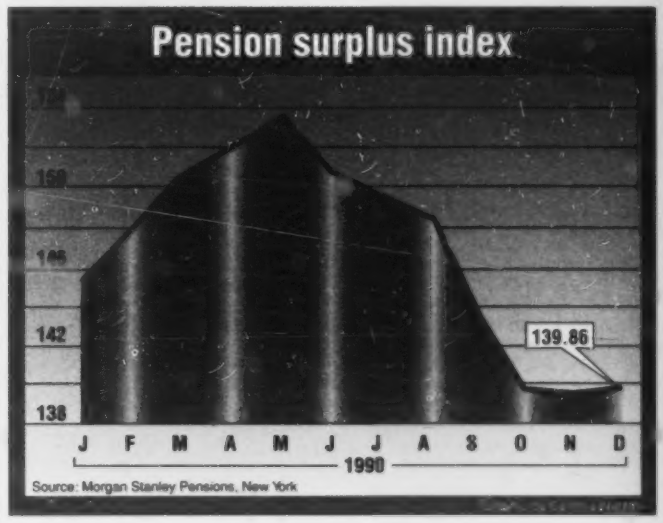
■ The Morgan Stanley Capital International World Index lost 18.7% in U.S. dollar terms in 1990, with only three of the 20 markets in the index showing positive returns.

The top performers were the United Kingdom, up 6%; Austria, up 5.2%; and Hong Kong, up 3.7%. New Zealand was at the bottom with a loss of 40.3%, and finishing just above it were Japan, down 36.4%, and Finland, down 33.3%.

Among major regions of the index, North America was down 6.4%, Europe was down 6.5%, and the Far East, 35.4%.

Among the 17 emerging and other markets followed by Morgan Stanley but outside the World Index, those posting positive returns were Greece, up 86.6%; Mexico (Free), including only securities without ownership restrictions, up 58.4%; Mexico overall, up 45.7%; Chile, up 20.2%; and Indonesia, up 5.2%. Morgan Stanley's Emerging Markets Free Index lost 13.8% in dollar terms. The index excludes markets where a substantial portion of shares are not available to non-domestic investors.

The dollar fared poorly in 1990, with 15 of 19 major world currencies appreciating against it. Twelve currencies had double-digit appreciation.




CASH MANAGEMENT

## 3 execs outline their methods to boost profits

■ Three corporate treasury managers have found ways to put profit on company doorsteps with short-term cash investments.

A conscientious approach to short-term investing and financial flexibility are the keys to earning profit without additional risk, according to the assistant treasurers from Litton Industries Inc., CSX Corp. and BET USA Inc., who spoke at the National Corporate Cash Management Association conference last fall. The three are responsible for a combined $2.3 billion in short-term investments.

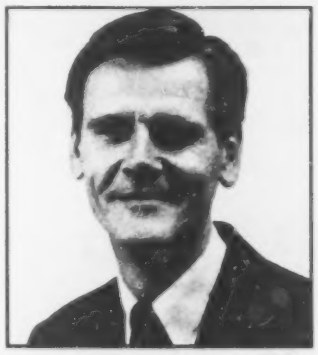
Michael Keane, assistant treasurer at Litton, said his company has "detailed investment guidelines . . . which form the basis for investment" of its $1.2 billion short-term portfolio.

Eric Norman, assistant treasurer at CSX, agreed guidelines must be in place and adhered to, but should be flexible. Rather than compiling an approved list of investment vehicles, he uses credit ratings, which permits the use of new investments as they come to market.

"When a new security comes out, generally the brokers . . . give you prices allowing you a better return in order to get that (investment) out into the marketplace. Generally, that's the best time to get into a new security," he said.

Debra M. Duffy, assistant treasurer at BET USA, said operating a treasury department as a profit center does not require a large staff. Indeed, CSX has a three-person treasury staff; Litton, nine; and BET, six.

She said BET seeks a return of "30 basis points over our cost of funds . . . and because of that, we have a lot of opportunities and options in the market to accomplish that goal."



**BET USA's Debra Duffy, from top, Litton's Michael Keane and CSX's Eric Norman are squeezing extra returns out of their respective companies' short-term cash portfolios.**

ECONOMICS

## Heavy debt load throws economy out of balance

■ The U.S. economy is in a "balance sheet recession" that could be longer and deeper than anyone expects, according to economist A. Gary Shilling.

Mr. Shilling, speaking at a Fiduciary Management Associates conference in Chicago, noted his economics consulting firm's holiday gift to clients was a T-shirt with the slogan, "Forget GNP and income statements . . . watch the balance sheets."

Many corporate and personal balance sheets have problems, he said: there is a mound of uncollateralized corporate debt; junk bonds have collapsed; banks, savings and loans, insurance companies and credit unions are having difficulties; and many consumers have excessive debt.

There are many ways the balance sheet recession could transfer to the income and spending side of the ledger and create a long, deep recession, Mr. Shilling said.

For instance, many manufacturing companies are laying off employees more rapidly than in other recessions, and service industries are having layoffs, too. "Obviously, the guy who's got a lot of debt and is laid off is one cautious consumer," he said. The credit crunch also will make it harder for the Federal Reserve to stimulate the economy, he said.

The downturn is global, Mr. Shilling said, adding a true depression is more likely in Japan than in the United States.

The situation in Japan looks like the one in the United States during the 1920s — an emerging global power and an exporter of capital, now experiencing a collapse in its real estate and stock markets.

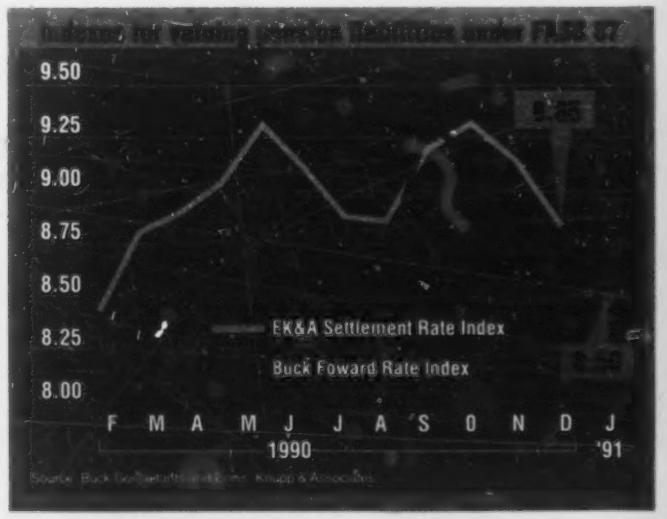
PROXIES

## Directory reveals who's really who

■ With proxy season around the corner and the possibility hostile takeovers might heat up again, the American Society of Corporate Secretaries, New York, is heavily marketing "The Nominee List." The directory contains more than 12,000 nominee or street names, an alias of sorts used by the real owners of corporate stocks to hide their identities.

A shroud of secrecy has long cloaked the identities of these shareholders, whose stock is held by custodians and beneficial owners. If a merger is proposed or a proxy contest occurs, there is a flurry of activity as corporate secretaries, investor relations officers, proxy solicitors, transfer agents and bank trust or custody officers all try to reach as many shareholders as possible.

While companies have their own shareholder lists, it's usually difficult for the other side to get them. The use of street names makes a hard job even tougher because there is no complete list of all nominee names.



# Industry can't rest on laurels in new decade

By Curtis Vosti and Terry Williams

Demographic, economic and client-demand changes will dramatically reshape the investment management community during the rest of this decade.

And, of course, the omnipresent wild card of governmental fiats also will form the basis of what many agree will be a fiercely competitive industry, with shakeouts and consolidations molding new management structures.

Nonetheless, observers say, firms can be successful in the 1990s by:

- positioning themselves to take advantage of increased international and alternative investing through organizational efficiencies and proprietary investment schemes;
- finding specialized niches, if small, or being broad enough to efficiently offer a variety of services;
- being able to capture international and non-core asset growth, increasing defined contribution assets and retiree health programs; and
- expecting downward pressure on investment management fees, but using performance-based fees to ease the pressure.

"There's no reason our industry should be different from any other professional firm operating in a maturing industry," said Charles Salisbury, managing director of T. Rowe Price Associates Inc., Baltimore.

"The business is not a cornucopia with money pouring out at us, but it will continue to grow," said Robert G. Wade, chief investment officer with Chancellor Capital Management, New York.

The growth of investment management business was driven in the 1970s largely by the growth of defined benefit assets after the passage of the Employee Retirement Income Security Act of 1974. In the 1980s, boutiques by the dozens sprouted to take advantage of equity returns annualized at 17.57% per year.

In the 1990s, the industry faces retrenchment with the likelihood of lower returns and lower, if not stagnant, defined benefit growth. Yet, defined contribution assets, new products and international investing hold promise as growth areas.

Boutiques and smaller firms in particular face steep capital barriers to keep pace with increasing demands of better educated and more demanding plan sponsors in an industry with excess capacity.

"The smaller firms — those with less than $500 million under management — unless they have an exceptional competitive advantage and value-added products, will not be able to survive on their own. They will merge or exit the business," said Martin D. Sass, chief investment officer of M.D. Sass Investors Services Inc., New York.

"It has become very complicated, very labor intensive. It favors the larger firms," said Brian Wruble, chief executive officer of Equitable Capital Management Corp., New York. "Marshaling those forces is not something boutiques can do."

Most industry professionals, however, admit there is always room for entrepreneurs who, at least initially, can avoid large capital needs. "To me, it's always been a dog-eat-dog market," said Ted Aronson, chief investment officer at Aronson + Fogler, Philadelphia, a 7-year-old boutique. Because growth needs are not as great for boutiques as for large firms, he said, they are not as affected by macroeconomic forces.

John Bogle, chairman of the board of The Vanguard Group of Investment Cos., Wayne, Pa., says he expects by 2000 there could be more than 40 new investment firms among the top 300 in terms of assets under management. Perhaps parochially, however, he doesn't see those firms threatening the natural affinity mutual fund companies, like Vanguard, have for the growing assets of defined contribution plans.

Those plans allow participants greater control over personalized retirement accounts, and require integrated service capabilities, like daily valuations and record keeping, which are costly but necessary.

"Everybody likes one-stop shopping," said Equitable's Mr. Wruble. "Having it, it's hard to give up."

Demographic factors, like an aging population that saves more will make wealthy individuals, who previously took care of their own investments, an attractive target for investment advisers, according to Chancellor's Mr. Wade.

George Perry, vice president of corporate strategy and development for IDS Financial Services, Minneapolis, sees the beginning of an intergenerational transfer of

*See* **Future** *on page 21*

## SCOREBOARD

### Net dollar gain

**Top managers over $10 billion overall**

| Firm | $ millions |
|---|---|
| State Street Bank | 8,896 |
| Bankers Trust | 6,093 |
| Fidelity Investments | 2,880 |
| Pacific Investment Mgmt. | 2,464 |
| ANB Investment Mgmt. | 2,100 |
| Vanguard Group* | 2,038 |
| Wells Fargo Nikko | 1,823 |
| Oppenheimer Capital | 1,583 |
| Prudential Fixed Income Advisors | 1,122 |
| Security Trust | 1,078 |

**Top managers $1 billion to $ 10 billion**

| Firm | $ millions |
|---|---|
| Hartford Life | 1,427 |
| Investment Advisers | 1,279 |
| CNA Insurance | 1,132 |
| Provident Nat'l Assurance | 1,100 |
| AMR Investment Services | 1,090 |
| Advanced Investment Mgmt. | 1,050 |
| Smith Barney Capital Mgmt. | 1,031 |
| Heitman Advisory | 1,020 |
| Western Asset Mgmt. | 1,015 |
| J & W Seligman | 870 |

**Top managers $250 million to $1 billion**

| Firm | $ millions |
|---|---|
| Hyperion Capital Mgmt. | 518 |
| HD International | 406 |
| INTECH | 364 |
| Metric Institutional Realty | 320 |
| GeoCapital | 315 |
| Turner Neill Investment | 310 |
| Karsten Realty Advisors | 270 |
| Harris Bretall Sullivan & Smith | 267 |
| Grubb & Ellis Realty | 250 |
| PCM International | 249 |

**Top managers under $250 million**

| Firm | $ millions |
|---|---|
| First Wisconsin Trust | 194 |
| Martingale Asset Mgmt. | 162 |
| Devon Institutional Realty | 147 |
| Cutugno & Associates | 136 |
| AMB Institutional Realty | 111 |
| Hourglass Capital Mgmt. | 108 |
| Twin Capital Mgmt. | 106 |
| Cisneros Asset Mgmt. | 105 |
| Duncan-Hurst Capital Mgmt. | 105 |
| Progress Investment Mgmt. | 105 |

*Manager of managers

### Most new equity business (net)

**Top managers over $10 billion**

| Firm | $ millions |
|---|---|
| State Street Bank | 2,394 |
| ANB Investment Mgmt. | 1,500 |
| Oppenheimer Capital | 1,222 |
| Wells Fargo Nikko | 1,206 |
| Vanguard Group* | 738 |
| INVESCO Capital Mgmt. | 460 |
| Bankers Trust | 416 |
| Jennison Associates Capital | 365 |
| Fayez Sarofim | 300 |
| Brinson Partners | 212 |

**Top managers $1 billion to $10 billion**

| Firm | $ millions |
|---|---|
| Advanced Investment Mgmt. | 1,050 |
| Boston Co. International | 903 |
| Investment Advisers | 868 |
| J & W Seligman | 770 |
| Provident Investment Counsel | 709 |
| Rosenberg Institutional Equity | 583 |
| Smith Barney Capital Mgmt. | 509 |
| Newbold's Asset Mgmt. | 502 |
| Columbus Circle Investors | 449 |
| Barrow, Hanley, Mewhinney & Strauss | 448 |

**Top managers $20 million to $1 billion**

| Firm | $ millions |
|---|---|
| INTECH | 364 |
| GeoCapital | 315 |
| Investment Research | 232 |
| Spare, Tengler, Kaplan & Bischel | 228 |
| Sasco Capital | 221 |
| Harris Bretall Sullivan & Smith | 179 |
| David L. Babson | 110 |
| Turner Neill Investment | 110 |
| Cadence Capital Mgmt. | 96 |
| Roger Engemann & Associates | 95 |

**Top managers under $250 million**

| Firm | $ millions |
|---|---|
| Twin Capital Mgmt. | 106 |
| Duncan-Hurst Capital Mgmt. | 105 |
| Jacobs Levy Equity Mgmt. | 80 |
| Progress Investment Mgmt. | 80 |
| Martingale Asset Mgmt. | 76 |
| Scimtar North American | 75 |
| Richard Fontaine Associates | 68 |
| Carl Domino & Associates | 62 |
| Taplin, Canida & Habacht | 57 |
| CIC Asset Mgmt. | 53 |

*Manager of managers

### Most new fixed-income business (net)

**Top managers over $10 billion**

| Firm | $ millions |
|---|---|
| Pacific Investment Mgmt. | 1,854 |
| Metropolitan Life | 1,747 |
| Bankers Trust | 1,719 |
| Fidelity Investments | 1,136 |
| Prudential Fixed Income Advisors | 1,122 |
| Chancellor Capital Mgmt. | 1,010 |
| Vanguard Group* | 883 |
| Fischer, Francis, Trees & Watts | 665 |
| Security Trust | 568 |
| Lincoln Capital Mgmt. | 456 |

**Top managers & $1 billion to $10 billion**

| Firm | $ millions |
|---|---|
| Western Asset Mgmt. | 1,015 |
| Harris Investment Mgmt. | 664 |
| Standish, Ayer & Wood | 592 |
| WR Lazard & Co. | 535 |
| Goldman Sachs Asset Mgmt. | 446 |
| Bear Stearns Asset Mgmt. | 440 |
| Payden & Rygel | 440 |
| Kemper Asset Mgmt. | 423 |
| Merganser Capital Mgmt. | 400 |
| ASB Capital Mgmt. | 385 |

**Top managers $250 million to $1 billion**

| Firm | $ millions |
|---|---|
| Hyperion Capital Mgmt. | 518 |
| Magten Asset Mgmt. | 189 |
| Morgan Grenfell Capital Mgmt. | 156 |
| Weaver C. Barksdale | 116 |
| OFFITBANK | 113 |
| Turner Neill Investment | 100 |
| Bridgewater Group** | 61 |
| Continental Asset Mgmt. | 60 |
| Seaboard Investment Advisers | 51 |
| First Coast Capital Mgmt. | 40 |

**Top managers under $250 million**

| Firm | $ millions |
|---|---|
| Cutugno & Associates | 113 |
| Cisneros Asset Mgmt. | 105 |
| First Wisconsin Trust | 87 |
| Gabelli-O'Connor Fixed Income Mgmt. | 78 |
| Charles River Mgmt. | 55 |
| Bank of Ireland Asset Mgmt. | 40 |
| Income Research & Mgmt. | 25 |
| Progress Investment Mgmt. | 25 |
| Jamison, Eaton & Wood | 23 |
| Dorsey & Co. | 20 |

*Manager of managers
**Manager of overlay program

# Marketing, visibility vital tools

By Mike Clowes

NEW YORK — The 1990s will be difficult for the investment management business, but it still is possible to start a successful money management firm, according to Michael Goldstein, security analyst at Sanford C. Bernstein & Co. Inc.

The analyst, who last year published a highly regarded study — "The Future of the Money Management Industry" — said he still would start a money management firm today, if he were so inclined.

"I still think it's a very good business. You have to know a lot more about marketing, because that's the key to the business at this point. And you have to have a plan. The ability to build a firm that serves the individual segment is good — I still think that's a regional market and a start-up can be regional and do great.

"A new firm entering the defined contribution market can still have an impact, but I don't think they are going to crack the top four. Success feeds upon itself. The client list (of the top four firms) is longer and longer so the sale is easier and easier and the costs come down.

"I would buy the highest visibility small (mutual) fund (firm) I could find, someone who has a great track record and two funds. Then I would hire 10 marketers right away and I would go and buy the (administrative and record-keeping) systems from somebody else. The key would be buying a real visible equity track record."

But, Mr. Goldstein said, trends in the industry favor the large diversified money management firms that have some form of proprietary distribution — through mutual funds, brand name recognition or a large sales force.

The key trends, he said, are the overfunding of defined benefit plans, which remains great even

*See* **Tools** *on page 20*

# International growth spread across spectrum

By Trudy Ring

Diversity was the name of the international investing game in 1990; much business went to traditional core strategies, both passive and active, but a fair amount also went to specialized index funds, regional portfolios and emerging markets.

Managers responding to *Pensions & Investments'* Scoreboard survey reported $17.1 billion in new international and global assets under management for U.S. tax-exempt investors in 1990. This included $12.8 billion in equities, $3.9 billion in bonds and the remainder in other asset classes.

For firms with more than $10 billion in tax-exempt assets under management, State Street Bank & Trust Co., Boston, led with $2.382 billion in new international and global business, of which $2.315 billion was in equities.

Of the equity component, $1.595 billion was indexed, but only $873 million was pegged directly to the capitalization-weighted Morgan Stanley Capital International Europe Australia Far East Index; the remaining $722 million had the EAFE markets weighted according to gross domestic product or excluding companies operating in South Africa.

The remainder went to equity strategies that used active management of country allocations, stock selections within countries or both.

Turmoil in the Japanese stock market has spurred a trend away from cap-weighted EAFE index funds, said Peter Braun, vice president and director of marketing for asset management. "Japan was a very unattractive place to be last year," he said. Japan's capitalization weight in the EAFE is close to 50%; a GDP weighting is about 33%.

State Street's international bond strategy, which attracted $67 million in new assets, is indexed to the Salomon Brothers Non-Dollar Government Bond Index.

Bankers Trust Co. — Investment Management Group, New York, ranked second among the largest firms with $1.618 billion in new international/global business, all but $100 million in equities. About $1.2 billion of the new equity business was indexed, and overall, the new equity accounts were for core products. "With us, it's been pretty much core EAFE Index and core traditional EAFE-benchmark active strategies," said Alexander R. Mount, vice president-international products marketing.

Its fixed-income strategies are active, with choices of hedged or unhedged, seeking to add value through minor duration shifts.

At Wells Fargo Nikko Investment Advisors, San Francisco, its $1.567 billion in new international equity business was all indexed. This reflects continued growth in EAFE funds, but also some use of strategies pegged to other indexes, such as the slightly broader FT-Actuaries Europe-Pacific Index, said Patricia Dunn, president. Increased international investing by public funds spurred growth in South Africa-free indexing, she added.

Some clients seeking to invest in Japan while avoiding its market problems went with tilted Japanese index funds, which screen stocks for various factors, Ms. Dunn said. Also, Wells Fargo Nikko gained $371 million in new business with a Japanese asset allocation strategy, following a model similar to its domestic asset allocation products.

For firms with $1 billion to $10 billion under management, Oechsle International Advisors, Boston, led with $858 million in new international business, all but $50 million in equities. An active manager primarily using the EAFE markets, Oechsle had such success primarily because of its performance record and that it is an owner-operated firm, said Steve Langer, partner.

"A plan sponsor likes feeling that his portfolio manager is intimately tied to the company," Mr. Langer said.

Track record and stability also benefited Rowe Price-Fleming International Inc., Baltimore, which placed second in the category with $829 million, said George Murnaghan, vice president.

New business was split almost evenly between equities, $417 million, and bonds, $412 million. One large account boosted the bond total, Mr. Murnaghan said. The bulk of the business was for core active strategies.

Other firms, across all size categories, with large amounts of new international/global bond busi-

*See* **Foreign** *on page 21*

# GIC/BIC growth hits turbulence

By Fred Williams

The growth in discretionary guaranteed investment assets stalled in 1990 as new business reported by industry leaders took a dramatic nosedive from the impressive gains made in 1989.

Net new business gained by managers of guaranteed and bank investment contracts dropped to less than half that of 1989. According to the *Pensions & Investments* Scoreboard survey, the top five firms picked up a total of $3.66 billion in new business in 1990. The same five managers gained $8.99 billion in new business in 1989.

*See* **Growth** *on page 22*

## SCOREBOARD

### Most new GIC/BIC business (net)

**Banks & insurance companies**

| Firm | $ millions |
|---|---|
| Bankers Trust | 1,722 |
| Hartford Life | 1,390 |
| CNA Insurance | 1,132 |
| Provident Nat'l Assurance | 1,100 |
| Allstate Life Insurance | 714 |
| John Hancock | 597 |
| New York Life | 509 |
| Crown Life Insurance | 462 |
| State Street Bank | 336 |
| Great-West Life | 145 |

**GIC portfolio managers**

| Firm | $ millions |
|---|---|
| Fidelity Investments | 1,323 |
| PRIMCO Capital Mgmt. | 850 |
| Certus Financial | 700 |
| Morley Capital Mgmt. | 456 |
| IDS Trust | 332 |
| Fiduciary Capital Mgmt. | 158 |
| Vanguard Group* | 107 |
| ASB Capital Mgmt. | 35 |

*Manager of managers

## SCOREBOARD

### Most new international/global business (net)

**Top managers over $10 billion**

| Firm | $ millions |
|---|---|
| State Street Bank | 2,382 |
| Bankers Trust | 1,618 |
| Wells Fargo Nikko | 1,567 |
| Pacific Investment Mgmt. | 487 |
| Brinson Partners | 312 |
| Fidelity Investments | 242 |
| GE Investments | 144 |
| Capital Guardian Trust | 143 |
| Travelers Corp. | 140 |
| Metropolitan Life | 113 |

**Top managers $1 billion to $10 billion**

| Firm | $ millions |
|---|---|
| Oechsle International Advisors | 858 |
| Rowe Price-Fleming International | 829 |
| Globe Finlay | 815 |
| Acadian Asset Mgmt. | 680 |
| Global Fixed Income Advisors | 598 |
| WorldInvest | 460 |
| Schroder Capital Mgmt. International | 443 |
| Putnam | 433 |
| Scudder, Stevens & Clark | 423 |
| Payden & Rygel | 300 |

**Top managers $250 million to $1 billion**

| Firm | $ millions |
|---|---|
| HD International | 406 |
| PCM International | 249 |
| Lombard Odier International | 222 |
| Yamaichi International | 215 |
| Marvin & Palmer | 170 |
| Hill Samuel/Investment Advisers | 167 |
| Daiwa International Capital | 152 |
| Bridgewater Group* | 122 |
| G.T. Capital Mgmt. | 115 |
| OFFITBANK | 114 |

**Top managers under $250 million**

| Firm | $ millions |
|---|---|
| Emerging Markets | 87 |
| Dillon, Read International | 76 |
| Wardley Investment Services | 30 |
| Bank of Ireland Asset Mgmt. | 29 |
| Cutugno & Associates | 23 |
| Prudential Asia | 13 |
| Henderson International | 11 |
| Spectrum Asset Mgmt. | 6 |
| Murray Johnstone International | 5 |
| Credit Suisse Asset Mgmt. | 2 |

*Manager of overlay program

### Most new real estate business (net)

**Top managers over $10 billion**

| Firm | $ millions |
|---|---|
| Equitable Real Estate | 349 |
| John Hancock | 163 |
| GE Investments | 80 |
| Security Trust | 60 |
| Metropolitan Life | 47 |
| State Street Bank | 20 |

**Top managers $1 billion to $10 billion**

| Firm | $ millions |
|---|---|
| Heitman Advisory | 1,020 |
| Yarmouth Group | 815 |
| TCW Realty Advisors | 715 |
| CGR Advisors | 600 |
| LaSalle Advisors | 529 |
| O'Connor Group | 471 |
| RREEF | 278 |
| Mellon/McMahan Real Estate | 170 |
| Bear Stearns Asset Mgmt. | 160 |
| Prudential Real Estate | 144 |

**Top managers $250 million to $1 billion**

| Firm | $ millions |
|---|---|
| Metric Institutional Realty | 320 |
| Karsten Realty Advisors | 270 |
| Grubb & Ellis Realty | 250 |
| Bennett & Kahnweiler Realty | 213 |
| Wells Fargo Realty | 171 |
| PMRealty Advisors | 170 |
| Lehndorff & Babson Real Estate | 157 |
| Schroder Real Estate | 101 |
| PSI Institutional Realty | 35 |

**Top managers under $250 million**

| Firm | $ millions |
|---|---|
| Devon Institutional Realty | 147 |
| AMB Institutional Realty | 111 |
| Batterymarch: Agrivest | 100 |
| Birtcher Realty Advisors | 90 |
| Resource Investments | 67 |
| Eastern Realty Investment | 17 |
| D.A. Management | 9 |
| American Agricultural Investment | 2 |

### Most new balanced business (net)

**Top managers over $10 billion**

| Firm | $ millions |
|---|---|
| Bankers Trust | 618 |
| INVESCO Capital Mgmt. | 333 |
| Oppenheimer Capital | 317 |
| Fayez Sarofim | 284 |
| Vanguard Group* | 216 |
| Boatmen's Trust | 182 |
| NCNB | 154 |
| Security Trust | 147 |
| Fidelity Investments | 142 |
| ANB Investment Mgmt. | 100 |

**Top managers $1 billion to $10 billion**

| Firm | $ millions |
|---|---|
| Boston Co. International | 192 |
| Bear Stearns Asset Mgmt. | 180 |
| Munder Capital Mgmt. | 175 |
| Provident Investment Counsel | 142 |
| ASB Capital Mgmt. | 127 |
| Smith Barney Capital Mgmt. | 120 |
| Independence Investment Associates | 102 |
| First Asset Mgmt. | 96 |
| J & W Seligman | 90 |
| NWQ Investment Mgmt. | 82 |

**Top managers $250 million to $1 billion**

| Firm | $ millions |
|---|---|
| RXR Capital Mgmt. | 147 |
| Turner Neill Investment | 100 |
| Schaenen Wood & Associates | 84 |
| Harris Bretall Sullivan & Smith | 80 |
| Seaboard Investment Advisers | 80 |
| Cowen Asset Mgmt. | 65 |
| David L. Babson | 55 |
| Davis Hamilton Jackson & Associates | 44 |
| Daniel S. Kampel | 39 |
| Amervest Co. | 37 |

**Top managers under $250 million**

| Firm | $ millions |
|---|---|
| Hourglass Capital Mgmt. | 72 |
| Jamison, Eaton & Wood | 72 |
| Becker Van Etten | 50 |
| Fox Asset Mgmt. | 46 |
| First Wisconsin Trust | 26 |
| NM Capital Mgmt. | 23 |
| Scimtar North American | 21 |
| Starbuck, Tisdale & Associates | 18 |
| Trust Co. of Oklahoma City | 16 |
| Jurika & Voyles | 15 |

*Manager of managers

# Tools

*Continued from page 17*
after last year's market decline, and the growth of defined contribution plans. "The upshot of that is that those trends tend to lead to a more consolidated industry than we've seen in the past," Mr. Goldstein said.

Some smaller firms may go out of business, and others will just cease to grow, he said.

"The money management industry is quite an interesting industry in that you had an extended period where you had hundreds of entrants and almost everyone was prosperous. It's unusual for that to go on for 15 or 20 years.

"I suspect the relative competitive intensity of the industry will rise because of the changing mix of growth and a lack of the kinds of exogenous factors that you had driving growth in the (immediate) post-ERISA era."

He said another significant trend was the emergence of price competition in the retail mutual fund industry, particularly in the money market segment.

Money market funds are widely held and are commodity-like, and "the way to gain share, it's been proven when you are a big player, is to cut price because then you have a higher current yield," Mr. Goldstein said.

"I think that's an enormously powerful trend that's just beginning and will radically change that industry in this decade. And that could have a powerful spillover effect elsewhere.

"Already on the retail side it has spilled over from money market funds to virtually every form of fixed-income fund. It's like any other business. The biggest players are trying to use their scale to gain share and lean over on all those smaller players, and it has worked."

Mr. Goldstein said that to be successful in the future, particularly in the pension business, money management firms would have to invest more, especially in marketing.

"It's a business that has had very high returns, and from my perspective it's almost like a spoiled child, they're just not used to investing," he said. "There are very few money managers who think in those terms. That's a very important change in this business — now you have to pay to play, and you never did before.

"You can see that in the evolution of products, like international, where people are investing. And the biggest firms, the top 10 firms or top 20 that I know well are always asking me: What are others doing in international? Should we be investing in it? It's going to cost us a fortune to do this."

Mr. Goldstein said the personal market was the least defined market. "That's the area I get the most questions on from large money managers, and the market is very ill-defined. No one knows how big it is, how fast it grows, or even what it is, and there are really very few competitors. That's where I think you are going to see a much more systematic approach."

He said the wrap-fee approach (in which the client is offered consulting, investment management and brokerage services for a flat fee, often as high as 3% of assets) has been enormously successful, in part because it's a large ill-defined market, and the firms pursuing it have about 70,000 sales people involved in it, of which perhaps 5% to 10% are active.

"Compared with the whole sales capability of the money management industry, 3,000 to 7,000 salesmen is a lot, so it's producing big numbers and it's been a growth area for all of the big retail firms," Mr. Goldstein said.

He said the investment banks are obviously trying to grow in the investment management business, particularly on the Pacific Rim. "They have generations of good will built up worldwide. I think at gaining offshore money they will be successful because of their international capabilities. It's probably one of the best uses for the international networks they've invested hundreds of millions in."

In terms of competing domestically, he said, "I guess more specialty quant products . . . that's where I would expect them to do the best." ■

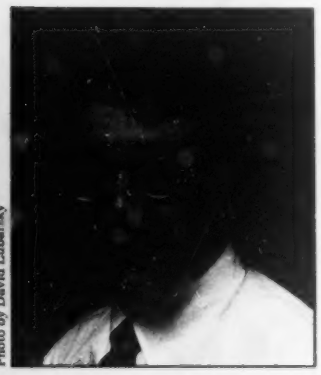


Photo by David Lubarsky

**Michael Goldstein sees a difficult business climate ahead for money managers.**

## How securities companies and money management firms are faring

| | Current price* | Price range* (past 12 months) | ROE (1989) |
|---|---|---|---|
| Bear Stearns | 10 | 8-15 | 15 |
| Salomon | 25 | 20-27 | 14 |
| PaineWebber | 14 | 11-21 | 5 |
| Alliance Capital | 17 | 12-17 | 21 |
| Franklin Resources | 30 | 23-36 | 43 |
| United Asset Mgmt. | 16 | 12-21 | 11 |

*As published in Bernstein Research's January 1991 Capital Markets Quarterly.


HARRIS CONVERSATIONS FOR THE 90s:

**MANAGING FOR SUCCESS IN A RECESSION**

A ROUNDTABLE DISCUSSION WITH WALTER F. LOEB
and a select group of business leaders.

**Retailers, their suppliers, and a host of other companies across corporate America must forge new strategies for reaching customers and maintaining profitability in a sluggish economy.**

**At the invitation of Harris Bank, Walter F. Loeb, the dean of retail industry analysts, and a select group of retail industry executives recently met to examine the elements of success in recessionary times.**

**The following discussion, one in a series of conversations with small groups of business leaders and some of today's most exciting thinkers, recently took place at Harris Bank:**

We are in a consumer recession. It is a fact. If you look at the leading indicators that I use—catalog sales, men's wear, and durables—each of these "postponable" classifications is weak. The general merchandise inflation rate will run at 3.5 to 4.5% in 1991 and have a severe impact upon earnings. In many parts of the country, the consumer feels house poor; real estate values have dropped, and there are no buyers. I see consumers who have been affected by higher gasoline prices, the threat of lower income, and inflation continuing to worry about these things and being very careful about discretionary spending. I do not see a great many underlying strengths.

**Then what does a business do to survive and—even thrive—in such difficult times?**

You will have to be lean and mean to weather this economy. It is going to be the low cost operator who is the winner. That is why an entrepreneurial spirit is vital.

By "entrepreneurial," I mean a creative, dynamic spirit that drives the business. Some retailing giants have reached the "bureaucratic stage," where arteriosclerosis sets in, and they have layer upon layer of management to defeat initiative and change. These giants often fight among themselves for share of established markets, while entrepreneurs go out and *create* new markets.

To be successful in this economy you must have initiative. You must challenge yourself to be more productive in existing facilities. That means providing incentives for employees to do more and drawing more business from current customers. Increasing such productivity is the first step in improving profitability, too.

**Technology is already an integral part of my business survival strategy for increasing productivity and helping to increase customer service.**

Yes, ten years ago the retail industry was still cautiously eyeing computer technology, but today, for the first time, the industry is technology driven. We can now instantly communicate worldwide, transmitting a design from a computer in Hong Kong to a computer in New York so that it can be reviewed, altered if necessary right at the computer, and then be transmitted back to the Orient so the production lines can gear up.

Electronic Data Interchange allows us to place orders via computer, so orders are received and filled more quickly. We can move goods faster and farther than ever before through distribution centers that use computerized picking and delivery planning. Quick Response systems let us replenish fast-selling merchandise in days instead of weeks so that we have the supply to meet the demand.

In other words, after many years of uncertainty, the industry has finally embraced computer technology and is beginning to save human, financial, and time resources.

**But not everyone is eager to accept these technological advances. Many of my suppliers resist smaller and more frequent orders.**

In this economy and in tomorrow's, if manufacturers and other suppliers won't adopt such technologies as Quick Response and Electronic Data Interchange, then you can't afford to do business with them. You need them, but they also need you. Their options are very few today, so you have more of an opportunity to tell your suppliers that they have to play your game. Today you are in a position to set ground rules. Ultimately, you answer to the consumer, who has less time to shop these days, and will elect to buy from those retailers who have the stock that customers expect them to carry. The customer will not care that your suppliers will not be your partners in Quick Response.

**This is the third in a series of Harris Conversations for the 90s. Other topical roundtables that can help our Harris customers be more competitive will follow.**

**To receive a longer version of this discussion with Walter F. Loeb, call Harris Bank at (312) 461-5554.**

HARRIS BANK

**Solid thinking for changing times.**

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# Future

*Continued from page 17*

capital. As parents who bought homes in the 1960s and 1970s for $30,000 sell them for up to 10 times that in the 1990s, individualized management, through wrap fees, of estates for their middle-aged children will become increasingly important.

With the economy entering a recession, even large firms face cost constraints that will affect their abilities to meet client demands.

"Trying to manage large sums of money is not easy," said Roger Bransford, national director-asset consulting at TPF&C in Atlanta. The natural evolution of the industry will put a premium on firms that can focus technological product lines and internal organization to exploit specific market opportunities, he said.

Banks and insurance companies will consolidate and, in some areas, look to outside management for their in-house funds, or even sell investment management subsidiaries, according to Dean R. Eberling, an analyst with Shearson Lehman Brothers, New York.

"Banks will be net sellers of their investment management business," he said. "That could emerge as an important source of money for the right firm."

Although insurance companies branched out in the 1980s through acquisitions of money management firms, there are signs that expansion has leveled.

Bill Bethke, president of Prudential Asset Management Co. Inc., Newark, N.J., said that, in the 1980s, anticipated growth levels encouraged those acquisitions, but in the 1990s that won't be the case. "It's now harder to justify paying those high multiples," he said. Although there could be more acquisitions, he said Prudential would pay less.

David Marks, managing director of CIGNA Investments Inc., Hartford, Conn., says he realizes the firm "can't be all things to all people," and thus is focusing on developing broad relationships with a narrower group of clients in areas like private placements in which insurers are strong.

"If we're going to be good at what we're doing, we're going to do it on a full-service basis."

The competition will be sharpened, as always, by sponsor needs, especially a focus on cutting management fees, increasing returns and serving participants who will have greater control over retirement assets.

Vanguard's Mr. Bogle sees an increase in the use of in-house indexed funds. "Why have somebody else manage an index fund?," he thinks is a question plan sponsors increasingly will be asking themselves.

Advisers that specialize in small-capitalization stocks, foreign securities, distressed securities, real estate and alternative strategies will be in demand.

"I see a transition taking place to a broadening of the market," said Mr. Sass. "Investors will be seeking these strategies that can provide high absolute returns without being meaningfully affected by trends in the market."

Plan sponsors also will look to hone their investment objectives through the use of customized benchmarks. "We're all going to be measured by tougher standards," Mr. Bogle said.

Firms able to meet those demands could capture growth expected in new investment avenues, such as international.

"The dominant trend in the next five or 10 years will be foreign securities," Prudential's Mr. Bethke said. "Most pension plans have a long way to go before they reach an adequate level of international investment amounts."

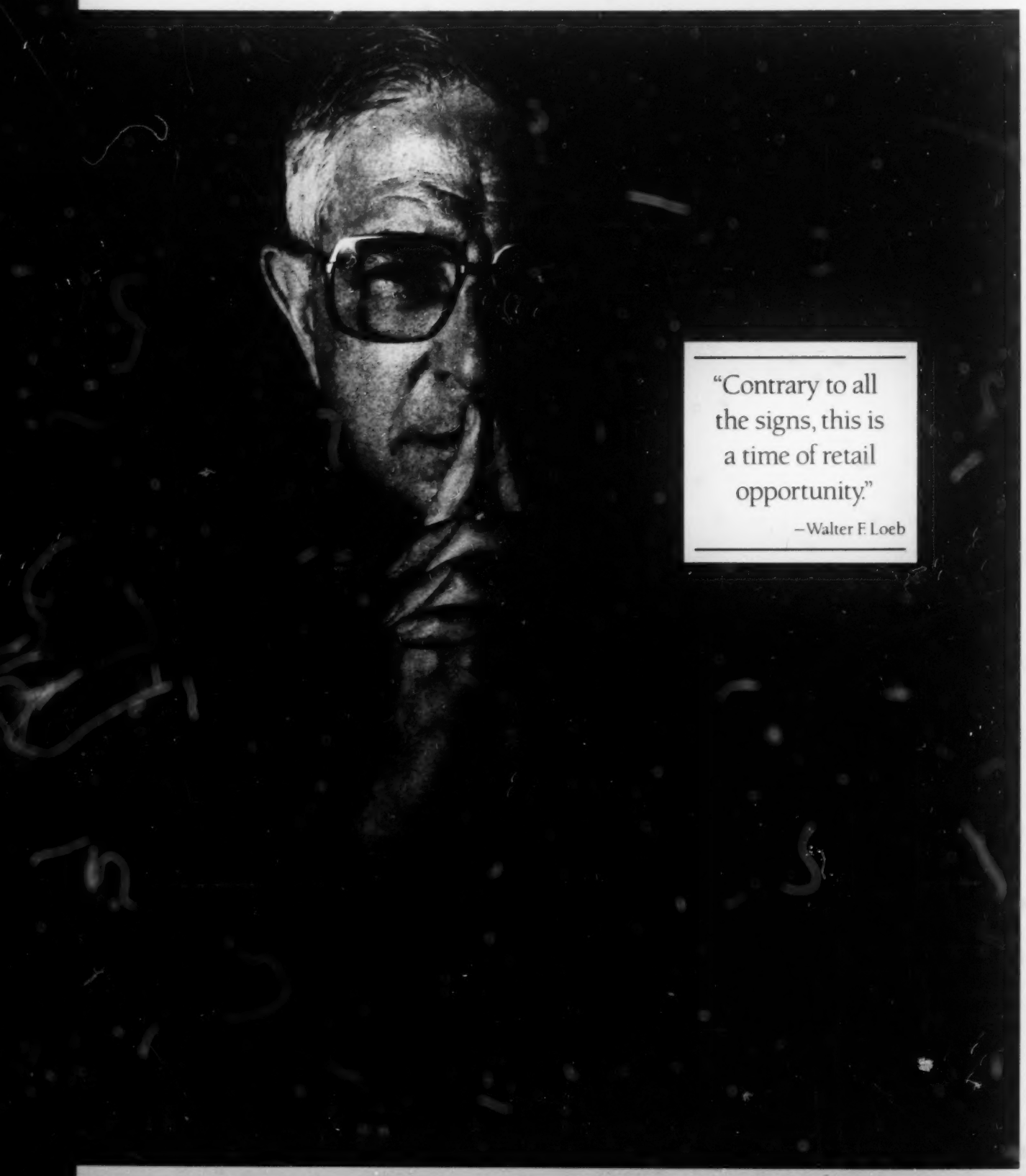
Historically, according to Equitable's Mr. Wruble, investment management growth has come from the channeling of assets away from internal management, but more importantly, from the emergence of new asset classes. "Global investing is the new asset class," he said. "It has built a new industry."

And as that industry develops, it will nourish ancillary growth, he said. Capital needs in Eastern Europe can be met by the huge investment dollars available from U.S. pension funds.

"An industry is being built to make that connection," he said.

Another avenue for growth, although less certain, is law. Banks anticipate an easing of regulatory strictures on their ability to offer mutual funds. In addition, a huge amount of potential investment capital sits with the growing retiree health liabilities, estimated by some to be an initial pool of $400 billion.

Although the government is moving toward requiring sponsors to meet that liability, the at times fickle nature of the political process is by no means certain, Mr. Salisbury said. "To have a business based on hoping the government will create a new market is an ill-conceived approach." ■



"Contrary to all the signs, this is a time of retail opportunity."

—Walter F. Loeb

# Foreign

*Continued from page 18*

ness included Global Fixed Income Advisors, Newark, N.J., $598 million; Pacific Investment Management Co., Newport Beach, Calif., $487 million; Putnam Cos., Boston, $423 million; Payden & Rygel, Los Angeles, $300 million; Brinson Partners Inc., Chicago, $270 million; WorldInvest Ltd., London, $252 million; and Massachusetts Financial Services, Boston, $215 million.

Regional specialization helped buoy smaller firms. HD International, New York, led firms with $250 million to $1 billion under management with $406 million in new business, and about two-thirds of that was for Europe-only portfolios, said Francine Elster, vice president. All of the new assets went to equities.

PCM International, Newark, which finished second in the category with $249 million, all in equities, runs primarily EAFE-mandated, active portfolios. Lombard Odier International Portfolio Management Ltd., London, third with $222 million, had slightly more assets going to Europe-only than EAFE-mandated equity accounts. Lombard Odier had $172 million in new equity business, $50 million in bonds.

For firms with less than $250 million under management, Emerging Markets Management/Emerging Markets Investors Corp., Washington, led with $87 million in new business, all for emerging equity market investments. "There's really a general acceptance that this is a good diversification move," said Josephine Jimenez, portfolio manager. The firm invests client assets in 21 emerging markets and is monitoring other developing markets for possible investment, she said. ■

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# Growth

*Continued from page 18*

An even more telling comparison shows that in 1989 each of the top five firms in net new discretionary assets under management picked up at least $1 billion. In 1990 only one firm, Fidelity Investments, Boston, gained at least $1 billion in new business. Fidelity topped the list of net new guaranteed assets under management with $1.32 billion in net new business.

Industry sources believe the guaranteed investment management industry might be maturing, but they do not expect a shakeout among managers as long as defined contribution plans continue to be popular among both employers and employees. More than 60% of assets in participant-directed 401(k) plans flow to GIC/BIC options.

Each of the top five GIC/BIC managers in net business saw their growth rate slashed by at least half. Certus Financial Corp., San Francisco, came the closest to matching its 1989 growth rate by picking up $700 million in new business compared with $1 billion the previous year. The most dramatic decline in growth came at Morley Capital Management Inc., Lake Oswego, Ore., which picked up $456 million in new business in 1990 compared with $2 billion in 1989.

Some of the growth leaders in 1989 declined to respond to the 1990 survey, including T. Rowe Price Guaranteed Asset Advisors, Glen Allen, Va.

"We're seeing the beginning of the maturation of the GIC manager industry," said Kim McCarrel, GIC consultant with Wyatt Asset Services, Portland, Ore.

"Almost everyone is now familiar with the concept of GIC management and most plan sponsors have been called upon. If they were initially inclined to move in that direction, they made the move in 1989 and now it has slowed down in 1990," she said.

But, "We are no where close (to a shakeout). There is enough business to go around. A shakeout occurs when too many competitors are chasing too few clients and we aren't at that point now."

David Perry, president of Certus Financial, said there are essentially three reasons for the slowdown in new business gains by guaranteed investment managers: the uncertainty associated with release of new guidelines by the Department of Labor pertaining to fiduciary responsibility in defined contribution plans, concerns over credit quality in the insurance industry and the Financial Accounting Standards Board's review of book value accounting for guaranteed investment products.

Mr. Perry said managers "continue to add value" to GIC/BIC portfolios and "I think the GIC management community needs to look for innovative alternative ways of providing stable value returns with exceedingly high credit quality instruments from banks, insurance companies or other sources."

Fiduciary Capital Management, Woodbury, Conn., gained $158 million in net new business in 1990 compared with $350 million in 1989.

Peter Bowles, president of Fiduciary Capital, said the decline in new business at the firm primarily is the result of a lag in marketing activities and the loss of three clients. Two of the clients, he said, left for other management firms that offer "one-stop shopping" such as a mutual fund family that can provide investment, record-keeping, trust and administrative services.

"We're still growing at a healthy rate, but inevitably when you have a new asset class and such rapid growth with pent up demand, as the industry matures realistically there will be some losses," said Mr. Bowles.

He said the concerns about insurance company credit quality are "more talk than action" and that credit worries may have had some impact on the drop-off in net new business for guaranteed investment managers but "I don't think we will see a dramatic effect from all that."

"We will and are seeing a heightened sensibility to higher quality and increased sensitivity to outside managers. Among those

*See* **Growth** *on page 23*

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# Growth

*Continued from page 22*

plans managing (GIC/BIC) assets internally, my perception is that they are increasingly uncomfortable with that responsibility in light of the credit concerns and are increasingly receptive to outside managers and the type of services we provide," he said.

Jason Psome, principal with the GIC consulting firm of Brentwood Asset Advisors, Santa Monica, Calif., said he is not surprised by the drop in new GIC management business and he expects more sponsors to switch from outside managers back to internal management, where most of the $200 billion in GIC assets are now managed.

"Management is at best a shifting of fiduciary responsibilities and administration. Managers don't guarantee a higher rate of return and a higher quality portfolio. Most companies are realizing that management fees on invested assets can be cut down to simply contract placement fees or no fees at all," said Mr. Psome.

"Most plan sponsors probably didn't move to outside managers for investment reasons but for administrative purposes. Those that did move for investment purposes may start to shift back to internal management because they are finding little difference in what they are doing on their own compared with what managers show as performance and charge them 20 to 30 basis points for those invested assets." ■

## SCOREBOARD

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($ millions)

| Firm | Total | Equity | Fixed Income |
|---|---|---|---|
| State Street Bank | 3,088 | 3,461 | —— |
| Wells Fargo Nikko | 2,728 | 2,404 | 324 |
| Pacific Investment Mgmt. | 2,464 | 123 | 2,341 |
| Bankers Trust | 2,227 | 1,750 | 477 |
| ANB Investment Mgmt. | 1,800 | 1,400 | 400 |
| Western Asset Mgmt. | 1,015 | 0 | 1,015 |
| Advanced Investment Mgmt. | 916 | 903 | 13 |
| WR Lazard | 535 | 0 | 535 |
| Rowe Price-Fleming | 374 | 0 | 374 |
| INTECH | 364 | 364 | 0 |

Money movers is a section that details the appointments of money management firms for tax-exempt funds.

It appears in each issue of *Pensions & Investments*.

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# Merits of foreign bonds a subject of debate

**By Curtis Vosti and Trudy Ring**

As more U.S. pension funds invest in foreign bonds, investment managers and consultants are debating the diversification benefits of this asset class.

Two points of view have come in reports from J.P. Morgan Securities Inc., New York, and Ennis, Knupp & Associates, Chicago. These reports and others have become the source of discussion about the merits of international bonds as a separate asset class.

Morgan's recent "Foreign Bonds in Diversified Portfolios: A Significant Advantage," is a critique of Ennis, Knupp's earlier report, "Foreign Bonds in Diversified Portfolios: A Limited Advantage."

The Ennis, Knupp piece — written by Paul Burik, director of international research, and Richard Ennis, principal — argues the risks and returns to be expected from foreign bonds raise serious questions about whether they should be given a specific allocation in pension portfolios.

"U.S. investors who bear foreign exchange risk do not appear to be rewarded constantly, unless they can anticipate fluctuations in foreign exchange rates more skillfully than most," the report said.

Using mean-variance analysis and long-term return assumptions for 11 asset classes, and returns between 1978 and 1987, Messrs. Burik and Ennis constructed an efficient frontier for each asset class. An efficient frontier shows the maximum return expected for a given level of risk.

The men then removed foreign bonds from the frontier and found the investor loses no more than four basis points a year. They reason the modest cost of excluding foreign bonds from a portfolio could be the result of the high correlation between foreign bonds and U.S. bonds (after hedging out currency fluctuations) and the greater expense incurred — mostly through currency hedging — in passively investing in foreign bonds.

Foreign bonds do provide a diversification advantage, but not as great as that of foreign stocks, Mr. Burik said. Larger pension funds are more likely to gain from any diversification advantage, as for them, a few basis points of return can mean millions of dollars.

Peter Rapaport, a consultant to the bond index group at J.P. Morgan Securities, however, argues that the methodology used by Messrs. Burik and Ennis uses an artificially high allocation of cash and thus skews the results.

In the efficient frontiers constructed by the men, cash makes up nearly half of the portfolio; Mr. Rapaport noted that *Pensions & Investments*' most recent survey of pension finds puts the average cash position at 8.9%. The large cash position used in the Ennis, Knupp study, Mr. Rapaport said, produces portfolios of extremely short duration.

"Cash provides a black hole down which practically any asset class can be made to disappear," he said. "Indeed, if one takes at face value the results presented . . . the question they motivate is not 'Why foreign bonds?' but 'Why long-term assets?' "

Added Victor Filatov, head of J.P. Morgan's bond index group: "The portfolio configuration that (Messrs. Burik and Ennis) generated was highly unrealistic. Once you make (portfolios) representative of the real world, the value of foreign bonds increases significantly."

Mr. Rapaport said his analysis "makes an unequivocal case for a permanent allocation to foreign bonds, regardless of management style."

Mr. Burik said the Morgan criticism comes from a different perspective: It looks at foreign bonds on an equal footing with other asset classes and ignores the fact that most U.S. plans go into foreign bonds after they've invested in the other asset classes. His methodology, he said, was designed to look at foreign bonds' incremental value to an overall portfolio.

"We wanted to look at the problem from the plan sponsor's perspective," Mr. Burik said. "Diversification and the benefits of foreign bonds would be reduced quite a bit if you are looking at it from the perspective of a well-diversified portfolio to start with," he said.

Plan sponsors, he added, invest in long-term assets because they have long-term liabilities. His study, he said, was designed to look at foreign bonds in an unconstrained environment, independent of liabilities.

Mr. Filatov also contended the historical data used by Messrs. Burik and Ennis likely won't be representative of future trends. Bond markets worldwide are becoming more liquid and have a wider variety of derivative instruments available than in the past, he said.

Mr. Burik responded it's not clear what impact these changes will have on the attractiveness of foreign bonds as an asset class. What would make foreign bonds more attractive, he said, would be for countries that have hefty withholding taxes on bond income to rescind or reduce them. Switzerland, for example, has a 35% tax; Spain's is 25% and Japan's is 10%, he said. Some countries, including Germany, Canada and the Netherlands, have no withholding tax, he added.

While discussion continues on the merits of using foreign bonds as a separate asset class, more people are investing in these instruments.

"The basic issue I think comes down to if you're dealing with the total portfolio," says Bob Sinche, vice president of Alliance Capital Management Ltd., New York.

"It becomes the old statistic problem: What do you put in first and what do you put in last?" he said.

He said there is some intuitive logic to the Ennis, Knupp approach. Alliance and other active managers understandably say that, whichever argument is correct, active management of fixed-income funds can add value.

Fixed income does have value, he said: Alliance uses annual data back to 1973 and says it shows that the relations between domestic and foreign bonds have a lower correlation than the relations between U.S. and foreign stocks.

"Foreign bonds would be a better diversification tool," he said.

"It's also significant there's no doubt there is a growing interest and confidence level with foreign bonds" among U.S. plan sponsors.

Ann Kale, director of marketing and research for Global Fixed Income Advisors, Newark, N.J., said pension funds are finding that the strongest reasons to go into global bonds is to enlarge the "opportunity set."

"You want to be able to come back to the U.S. market," she said.

Les Nanberg, senior vice president of Massachusetts Financial Services Inc., Boston, said the real advantage of international bonds that is not addressed in the Morgan and Ennis, Knupp studies is the opportunity offered through active management of foreign bonds.

"As world markets get bigger and more liquid there are more choices, more opportunities." Those opportunities, he said, are increased when, like in recent years, there's been wide fluctuations of the value of the dollar in relations to other currencies. ■

# Overseas

*Continued from page 2*

ing up some key bond markets this year. Although that development would lower interest rates, at least some analysts expect many foreign bond market yields would continue to exceed those in the United States.

"We think global bonds will do well in 1991," said Morris W. Offit, chief executive of OFFITBANK, New York. Not only are the yield levels of many foreign bond markets relatively attractive, but also, by being above those in the United States, they help "cushion" the ravages of a rising dollar, he said.

Some money managers are capitalizing on these good times. Some hope if they can at least gain permission to include foreign bonds opportunistically in domestic portfolios, or "garnish" the portfolios, clients will ease into non-dollar bond investing.

A variety of reasons has prompted Scudder, Stevens & Clark, New York, to encourage more use of foreign bonds in domestic portfolios, said Lynn Birdsong, managing director in charge of fixed-income investments. While Scudder has employed the garnishing technique on a limited basis for about 20 years, about 18 months ago the firm began trying to encourage participation by asking all appropriate institutional clients for permission to include foreign bonds in their domestic bond portfolios when deemed valuable to performance.

Scudder at first sought permission to include up to 10% of portfolio assets in foreign bonds; last year, it expanded that request to a 20% cap. According to Mr. Birdsong, all clients approached so far — about 20 — agreed to Scudder's proposal. No data were available on last year's performance results on these portfolios. Mr. Birdsong said, however, Scudder's domestic bond portfolios that included foreign bonds "meaningfully" outperformed U.S.-only portfolios.

The Pennsylvania state fund allows one domestic bond manager — Miller, Anderson & Sherrerd, West Conshohocken, Pa. — to include up to 20% in foreign bonds in a $1.2 billion bond portfolio, said David Burnett, administrator-investment office. *P&I* was unable to obtain comparative performance data on this account.

Jay Burden, manager of fixed-income investments at the $4.2 billion defined benefit fund of Allied-Signal Inc., Morristown, N.J., said the fund for the past four or five years has allowed one of its managers — J.P. Morgan Investment Management Inc., New York — to include international bonds in a $480 million bond portfolio. While the fund has been "satisfied with this account's returns, we haven't found" the foreign bond component — which has never been above 7% of the portfolio's assets — "to have been significantly large enough to alter (performance) one way or another," he said.

One pension fund executive, who asked to not be identified, said, however, his fund established a separate account rather than include foreign bonds in domestic portfolios because that way the fund is assured of maintaining a global bond allocation.

"By incrementally adding global/international bonds to fixed-income holdings, you can dampen volatility and reduce risk while enhancing performance because (there is not) a tight correlation between U.S. and non-U.S. bond performance. The U.S. market doesn't finish in first place every year. Why limit yourself to one country's fixed-income market?" the executive said.

The $90 million endowment of the Brookings Institution, Washington, has been investing about $15 million in global bonds with OFFITBANK for three to four years, said Ezra K. Zilkha, Brookings' investment committee chairman. Diversification and superior-to-U.S.-returns, were the incentives. And indeed, the endowment has found that "over time, OFFITBANK has done better in performance than domestic bond indexes," said Mr. Zilkha, who did not provide supporting data.

Looking ahead, Marvin D. Winston, cash management manager at the approximately $400 million Memphis Light, Gas and Water Retirement and Pension System, is among those considering such investments. Mr. Winston said he will decide in February or March whether to recommend international bonds to fund trustees. The fund already invests in international equities. Mr. Winston's decision on foreign bonds will hinge on three key investment issues: safety, yield levels and liquidity. "If we can find some foreign government" and perhaps quasi-government "bonds with a nice rate of return, and that are fairly liquid, it may be a good place to be," he said. ■

## University system exec appointed

COLUMBIA, Mo. — Shirley Shea DeJarnette has been appointed assistant vice president for investment and banking at the University of Missouri System.

In her new post, Ms. DeJarnette will oversee the university's $600 million pension fund and its $140 million endowment fund. The assets are managed by outside managers.

She said one of her first goals is to get the university to find a consultant for the endowment fund.

Most recently, Ms. DeJarnette was the managerial director of DeJarnette Investment Advisors, Charlottesville, Va. She is replacing University Treasurer Donald S. Holm Jr., who is retiring. ■

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ACTIVE INVESTMENT MANAGEMENT OF MORTGAGE-BACKED SECURITIES

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# Indexing

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page in total indexed assets probably is explained by the popularity of international indexing and the instability in the domestic equity market; domestic equity funds account for more than half of all the managers' indexed assets.

"The growth in the international area is the big story for 1990," said Patricia Dunn, chief investment officer at Wells Fargo Nikko Investment Advisors, San Francisco. "A lot of U.S. pension funds followed through with plans to diversify outside the U.S.; our assets reflect that trend."

Wells Fargo's total indexed assets increased to $82.8 billion from $77.15 billion at May 31 and the firm is, by far, the largest U.S. domestic index fund manager. Almost half of those assets, $46 billion, are in domestic equity funds, but international equity indexed assets were Wells' biggest growth area, in this survey, climbing 78.6% to $7.5 billion Dec. 1 from $4.2 billion May 31.

Acknowledging the poor performance in the international equity markets, largely because of the dramatic decline in Japan, Ms. Dunn said she views such declines as buying opportunities and remains positive on international equities.

"On the domestic (equity) side, we see some flux. In our asset allocation accounts we have disfavored equities. Another trend other managers may have noticed is that a lot of corporate pension funds are in a negative cash flow position for the first time in several years and are drawing down (assets). Some of that is reflected in a decline in equities," she said.

"The main reason for the decline (in equities) is that most pension funds were fully or over exposed to their equity targets in 1990. They went into 1990 overexposed and used index funds to adjust that exposure."

Indexing is still looked upon as a low-cost, reduced-risk alternative to active management and is likely to continue growing in importance among pension plan sponsors, said Greg Buckalew, consultant with Wyatt Asset Services, Atlanta.

"What we see happening in the market is that 1990 turned into another year when the S&P outperformed specific-style managers, and we now think we see some shifting to index funds as core positions with stylized managers used to get the extra kick," he said.

Mr. Buckalew said indexing is likely to continue its growth at the expense of active managers because "managed money, net of fees, has a hard time beating the indexes and if it does, it probably won't beat it by much."

Dennis Tritin, consultant with Frank Russell Co., Tacoma, Wash., said much of the growth in indexing is through the use of customized indexes designed to meet client objectives.

"We're finding there are a broader number of alternatives, and clients are constructing custom indexes. Some, for example, are keyed off the Russell 1000 in which clients are constructing growth and value indexes which give them an exposure to style using an index. It takes the active/passive decision to a style level," said Mr. Tritin.

John Meneghetti, vice president and manager of quantitative services at NCNB-Texas, said any decline in equity indexes during the second half of 1990 is attributable to market activity. NCNB-Texas' indexed equity assets declined to $675 million Dec. 1 from $740 million May 31. Adjusted for the market, that represents an increase of less than 1%.

"This year we heard so much about the demise of index funds and the benefits of active management because active managers held some cash. It is clear that active managers had a difficult year, even with cash," he said.

Mr. Meneghetti said indexing will remain popular "because of the predictability of relative performance relative to a benchmark. We have found among our large plan sponsors that they don't want to have to explain to participants why a fund did well or worse than the market. They like to be close to the market either way, good or bad."

Mr. Meneghetti also said the trend is toward specialized or customized indexes.

"We're seeing some more sophisticated plan sponsors realizing they may be in an equity environment where returns won't be what they have been in the past, the 14% to 15% range. Their approach to enhance returns won't be to add active managers but some derivative or enhanced index funds using tilts or other approaches and enhancements."

Mr. Buckalew said most of the increase in fixed-income assets is due to market appreciation and plan sponsors are not flocking to fixed-income index funds.

"In generic bond index management we haven't seen a lot of interest or activity," he said. "Most of the shifting (from equities) in a nervous market doesn't tend to go to traditional fixed-income markets but into cash because people believe they won't be able to shift that money out and move back into equities." ■

## Leading index fund managers
($ millions)

| Company | Total | Domestic equity | Domestic fixed | Int'l equity | Int'l fixed |
|---|---|---|---|---|---|
| Wells Fargo | 82,793 | 46,000 | 29,000 | 7,505 | 288 |
| Bankers Trust | 41,934 | 31,282 | 8,702 | 1,750 | 200 |
| Mellon Capital | 28,370 | 23,690 | 4,230 | 450 | 0 |
| State Street | 26,762 | 16,224 | 2,279 | 8,094 | 165 |
| ANB | 11,607 | 9,436 | 1,724 | 447 | 0 |
| Alliance** | 7,461 | 6,831 | 20 | 610 | 0 |
| Panagora | 7,278 | 4,517 | 1,586 | 775 | 400 |
| GE Investment* | 5,643 | 5,643 | 0 | 0 | 0 |
| Mellon Bond | 5,200 | 0 | 5,200 | 0 | 0 |
| Dimensional Fund | 4,691 | 2,900 | 791 | 1,000 | 0 |
| Lincoln Capital | 4,400 | 0 | 4,400 | 0 | 0 |
| Manufacturer's Nat'l/Detroit | 4,145 | 4,101 | 40 | 4 | 0 |
| Pacific Investment | 4,090 | 890 | 3,200 | 0 | 0 |
| Wilshire | 3,667 | 3,667 | 0 | 0 | 0 |
| Vanguard | 3,489 | 3,124 | 244 | 121 | 0 |
| Chase** | 3,380 | 1,800 | 480 | 1,100 | 0 |
| Prudential Fixed Income | 1,443 | 0 | 1,443 | 0 | 0 |
| PDI | 1,440 | 1,248 | 0 | 192 | 0 |
| Northern Trust | 1,434 | 1,151 | 283 | 0 | 0 |
| T. Rowe Price | 1,427 | 263 | 1,164 | 0 | 0 |
| Putnam | 1,324 | 0 | 1,324 | 0 | 0 |
| BEA*** | 1,300 | 0 | 1,300 | 0 | 0 |
| Travelers | 1,290 | 812 | 194 | 256 | 28 |
| Advanced Investment | 1,200 | 1,200 | 0 | 0 | 0 |
| Security Capital | 1,135 | 0 | 1,003 | 0 | 132 |
| First Wisconsin | 1,085 | 95 | 990 | 0 | 0 |
| Sears**** | 997 | 932 | 0 | 65 | 0 |
| Chancellor Capital** | 990 | 968 | 0 | 22 | 0 |
| Mitchell Hutchins* | 920 | 255 | 665 | 0 | 0 |
| WR Lazard | 903 | 0 | 903 | 0 | 0 |
| Axe-Core | 890 | 550 | 0 | 340 | 0 |
| Aetna Life | 849 | 490 | 359 | 0 | 0 |
| Lehman Ark | 792 | 0 | 792 | 0 | 0 |
| Boston Int'l | 761 | 0 | 0 | 761 | 0 |
| Nikko Capital | 729 | 500 | 0 | 229 | 0 |
| Ryan Labs | 710 | 0 | 710 | 0 | 0 |
| NCNB-Texas | 675 | 675 | 0 | 0 | 0 |
| ASB Capital | 584 | 584 | 0 | 0 | 0 |
| Fidelity Investments | 506 | 480 | 26 | 0 | 0 |
| Capstone | 500 | 500 | 0 | 0 | 0 |
| Boatmen's | 495 | 480 | 15 | 0 | 0 |
| Atlantic Portfolio | 468 | 0 | 468 | 0 | 0 |
| Harris Trust | 420 | 420 | 0 | 0 | 0 |
| Bear, Stearns | 320 | 0 | 320 | 0 | 0 |
| Old Kent Bank | 319 | 319 | 0 | 0 | 0 |
| Todd Investment | 274 | 0 | 274 | 0 | 0 |
| Associated Capital | 250 | 179 | 71 | 0 | 0 |
| NBD Bancorp | 239 | 239 | 0 | 0 | 0 |
| Monitor Capital | 216 | 112 | 63 | 41 | 0 |
| Metropolitan Life | 169 | 169 | 0 | 0 | 0 |
| **Total** | **271,984** | **172,728** | **74,283** | **23,762** | **1,213** |

*As of May 31 ***As of Sept. 30
**As of Dec. 31 ****As of Jan. 23


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# Gains

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Atkins said.

Bankers Trust is an example of managers dominating the industry that benefited from the broad array of products they offer. Investment products that have shown substantial appeal during the past year include those in the international or global arenas; the defined contribution sector; and the passive or quantitative approaches, said Roger C. Bransford, national director-asset consulting, with TPF&C, Atlanta.

"The product is very good, but probably more important than the product being good, it's aimed at market segments that are very anxious to buy," Mr. Bransford said generally speaking.

While both are leaders in indexing and international, State Street brought in the most new equity business — $2.4 billion — and Bankers Trust brought in the most new balanced account business — $618 million, mostly managed according to tactical allocation strategies.

"We still see some activity in balanced and some fine retooling of the equity side," said Philip Schneider, consultant with the The Wyatt Co., Chicago. "There's a group of midsize companies . . . (that) prefer the balanced approach as opposed to the specialty managers."

J.P. Morgan Investment Management Inc., New York, brought in the most new fixed-income business, with $2.3 billion in new assets, followed by Pacific Investment Management Co. with $1.9 billion and Metropolitan Life Insurance Co., New York, with $1.7 billion.

(J.P. Morgan's data were not available in time to be included in the charts that start on page 17.)

The continued growth in defined contribution assets cemented Boston-based Fidelity Investments' spot at No. 3 overall with $2.9 billion in new business. The Vanguard Group of Investment Cos., Valley Forge, Pa., corralled $2.04 billion in new business, of which 80% could be linked to the growth in defined contribution assets.

At Vanguard, 40% of all the new assets invested on behalf of defined contribution plans went into "safe" vehicles such as Treasury securities and money market funds, and 35% were invested in equities, primarily Standard & Poor's 500 Stock Index funds, said Jim Gately, senior vice presi-

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